

PUBLIC DISCLOSURE

October 17, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Square 1 Bank
Certificate Number: 58021**

**406 Blackwell Street
Suite 240
Durham, North Carolina 27701**

**Federal Deposit Insurance Corporation
10 Tenth Street, N. E., Suite 800
Atlanta, Georgia 30309-3849**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Square 1 Bank** prepared by **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 17, 2013**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

This institution elected to be evaluated under the strategic plan option. The plan, approved by the agency, sets forth goals for Satisfactory and Outstanding performance.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Square 1 Bank exceeded all but two of the Outstanding Strategic Plan goals in each area in 2010, 2011, and 2012 combined. In 2010, the bank fell just below the goal for Satisfactory performance for CRA loans and investments. The bank compensated for this by adding \$6.5 million in CRA loans and investments in 2011 and exceeded the goal for Outstanding performance. In 2012, the bank added an additional \$9.3 million in CRA loans and investments which resulted in the bank significantly exceeding the Outstanding goal set for 2012. In 2012, bank's CRA service hours fell just below the goal for Satisfactory performance. However, the CRA service hours performances in 2010 and 2011 exceeded the goals for Outstanding performance by large margins. Additionally, CRA grants were substantially higher than the Outstanding goal set for each year. In fact, in 2010 and 2011, the bank's performance was 4 times the Outstanding goal established and was 3 times the Outstanding goal for 2012.

While the bank's performance was slightly below Satisfactory goals in two areas, the overall performance reflects that in each additional area in each year, the bank exceeded, often by significant margins, the Outstanding performance goals established; and thus, achieved an overall Outstanding performance.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated pursuant to Strategic Plan CRA examination procedures. The latest Strategic Plan was approved by the FDIC on December 29, 2011, and includes Satisfactory and Outstanding goals for CRA loans and investments, CRA grants, and CRA service hours for years 2012 through 2014. The prior Strategic Plan was approved by the FDIC on December 12, 2008, and includes Satisfactory and Outstanding goals for CRA loans and investments, CRA grants, and CRA service hours for years 2009 through 2011. This evaluation includes a full-scope review of the bank's performance towards meeting the strategic plan goals in the defined assessment areas of Wake and Durham Counties, North Carolina for plan years 2010, 2011, and 2012.

DESCRIPTION OF INSTITUTION

Square 1 Bank is headquartered in Durham, North Carolina and operates eleven loan production offices throughout the country. The loan production offices are located in the Nation's most active technology corridors of California, Massachusetts, Texas, Virginia, New York, and Washington. The bank specializes in providing financial services to entrepreneurs and venture capitalists. Target customers are primarily technology and medical companies that have received at least one round of funding from venture capital investors. In addition, the bank lends directly to venture capital firms. Loan needs for this market generally include working capital lines of credit, equipment financing, asset acquisition loans, and bridge financing between equity funding disbursements. The bank does not extend consumer loans. Deposit operations are handled by the main office in Durham, North Carolina and conducted on a national basis through online banking, telephone banking, and mail. The bank's December 31, 2012, Call Report of Condition

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reflected total assets of \$1.3 billion. The loan portfolio distribution as of same date is presented in Table 1.

Table 1 - Loan Distribution as of December 31, 2012		
Loan Type	Dollar Amount (000s)	Percent of Total Loans
Real Estate Loans	\$33,876	3.9
Commercial and Industrial Loans	\$698,962	80.7
Other Loans	\$132,859	15.3
Total Loans	\$865,697	100.0%

At the previous CRA evaluation dated February 25, 2009 conducted by the FDIC, the bank received an “Outstanding” CRA rating using the Strategic Plan evaluation procedures.

A review of FDIC records as well as the bank’s public CRA file did not reveal any complaints relating to the CRA performance of the bank since the prior evaluation.

DESCRIPTION OF ASSESSMENT AREA

Square 1 Bank’s CRA assessment areas include the contiguous counties of Durham, which is located in the Durham, North Carolina Metropolitan Statistical Area (MSA) and Wake, which is located in the Raleigh-Cary, North Carolina MSA. These are the counties served by the main office and where over half of the bank’s employees work and live. Select assessment area population and business demographics are shown in Tables 2 and 3. The 2000 census data was used when reviewing CRA activity for 2010 and 2011 while the 2010 census data was used for 2012 activity.

Durham County Assessment Area

Table 2 - Demographic Information for Durham County						
2000 Census Data						
		Census Tract Classifications				
		Low	Moderate	Middle	Upper	N/A*
Demographic Characteristics	Number	Percent	Percent	Percent	Percent	Percent
Geographies (Census Tracts)	53	21%	21%	32%	22%	4%
Population by Geography	223,314	15%	18%	35%	31%	1%
Owner-Occupied Housing by Geography	48,278	5%	11%	40%	44%	0%
Businesses by Geography	27,339	8%	13%	41%	35%	3%
Family Distribution by Income Level	54,608	22%	17%	21%	40%	0%
Distribution of Low and Moderate Income Families by Geography	21,311	25%	25%	34%	16%	0%
Median Family Income for 2000 Census Tracts	53,076	Median Housing Value		123,602		
HUD Adjusted Median Family Income for 2011	67,800	Median Housing Age		24		
Families Below Poverty Level	13%					

Source: 2000 U.S. Census, except for marked data

(*) The NA category consists of geographies that have not been assigned an income classification.

Table 2a – Demographic Information for Durham County						
2010 Census Data						
		Census Tract Classifications				
		Low	Moderate	Middle	Upper	N/A *
Demographic Characteristics	Number	Percent	Percent	Percent	Percent	Percent
Geographies (Census Tracts)	60	18%	27%	27%	25%	3%
Population by Geography	267,587	14%	25%	30%	29%	2%
Owner-Occupied Housing by Geography	58,488	5%	21%	32%	42%	0%
Businesses by Geography	27,159	8%	25%	33%	33%	1%
Family Distribution by Income Level	62,250	24%	18%	19%	39%	0%
Distribution of Low and Moderate Income Families by Geography	26,078	22%	36%	29%	13%	0%
Median Family Income for 2010 Census Tracts	65,660	Median Housing Value		180,374		
FFIEC Adjusted Median Family Income for 2012	67,800	Median Housing Age		35		
Families Below Poverty Level	14%					

Source: 2010 U.S. Census, except for marked data

(*) The NA category consists of geographies that have not been assigned an income classification.

According to the 2000 census tabulation, the assessment area included 223,314 individuals residing in 53 census tracts. The county had a high level of low- and moderate-income geographies with 21 percent designated as low-income and 21 percent designated as moderate-income census tracts. With the 2010 census, the tract designations changed slightly, and the county now consists of 60 census tracts with 18 percent designated as low-income and 27 percent designated as moderate-income.

The population increased between tabulations to 267,587, which represents a nearly 20 percent increase. The poverty rate remains relatively high and rose from 13 percent to 14 percent. Median family incomes increased 24 percent, while median home values increased 46 percent making it harder for low- and moderate-income families to purchase homes. Businesses servicing the area totaled 27,339 in 2000 and decreased only slightly in 2010 to 27,159, indicating an opportunity for continued business purpose lending.

Durham's economic base is firmly established upon knowledge-based, high-technology industries such as biopharmaceutical, computer, telecommunications and electronics. The expansion of the economic base strongly correlates with the growth and development of the world-renowned Research Triangle Park, the largest and most successful planned Research and Development Park in the country. In addition, the county is home to one of the southeast region's largest airports, Raleigh-Durham International. The top five largest employers in the county at year-end 2012 were Duke University & Medical Center, International Business Machines, UNC Chapel Hill, GlaxoSmithKline, and Blue Cross and Blue Shield of North Carolina.

The county has benefited from lower unemployment rates compared to the state and National figures for the past 20 years. Most recently at the third quarter of 2013, the unemployment rate

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for Durham County was 6.8 percent compared to the state rate of 8.3 percent and a National rate of 7.3 percent.

Wake County Assessment Area

Table 3 - Demographic Information for Wake County						
2000 Census Data (Data for 2011 Residential Mortgage and Business Lending Distribution Review)						
		Census Tract Classifications				
		Low	Moderate	Middle	Upper	N/A*
Demographic Characteristics	Number	Percent	Percent	Percent	Percent	Percent
Geographies (Census Tracts)	105	7%	15%	51%	27%	0%
Population by Geography	627,846	5%	13%	52%	30%	0%
Owner-Occupied Housing by Geography	258,953	1%	10%	55%	34%	0%
Businesses by Geography	75,781	17%	17%	22%	44%	0%
Family Distribution by Income Level	159,824	2%	10%	58%	30%	0%
Distribution of Low and Moderate Income Families by Geography	53,545	7%	21%	56%	16%	0%
Median Family Income for 2000 Census Tracts		61,439	Median Housing Value		164,466	
HUD Adjusted Median Family Income for 2011		78,800	Median Housing Age		17	
Families Below Poverty Level		7%				

Source: 2000 U.S. Census, except for marked data

(*) The NA category consists of geographies that have not been assigned an income classification.

Table 3a - Demographic Information for Wake County						
2010 Census Data (Data for 2012 Residential Mortgage and Business Lending Distribution Review)						
		Census Tract Classifications				
		Low	Moderate	Middle	Upper	N/A*
Demographic Characteristics	Number	Percent	Percent	Percent	Percent	Percent
Geographies (Census Tracts)	187	7%	16%	34%	41%	2%
Population by Geography	900,993	6%	19%	36%	38%	1%
Owner-Occupied Housing by Geography	215,485	2%	17%	38%	43%	0%
Businesses by Geography	104,562	5%	18%	33%	44%	0%
Family Distribution by Income Level	213,822	19%	16%	20%	45%	0%
Distribution of Low and Moderate Income Families by Geography	75,503	10%	29%	39%	22%	0%
Median Family Income for 2010 Census Tracts	74,783	Median Housing Value		242,361		
FFIEC Adjusted Median Family Income for 2012	79,900	Median Housing Age		35		
Families Below Poverty Level	9%					

Source: 2010 U.S. Census, except for marked data

(*) The NA category consists of geographies that have not been assigned an income classification.

According to the 2000 census tabulations, the assessment area included 627,846 individuals residing in 105 census tracts. As of the 2000 census tabulation, low- and moderate-income tracts were limited with only 7 percent designated as low-income and 15 percent designated as moderate-income. With the 2010 census, the tract designations changed slightly, and the county now consists of 187 census tracts. Low- and moderate-income tracts continue to be limited with only 7 percent designated as low-income and 17 percent designated moderate-income. Most of the geographies, population, owner-occupied housing, businesses and low- and moderate-income families are located in middle- and upper-income census tracts.

The population increased to 900,993, which represents a nearly 44 percent increase. The poverty rate rose from 7 percent to 9 percent. Median family incomes increased 22 percent, while median home values increased 48 percent which would make it harder for low- and moderate-income families to buy houses. There are a high number of businesses serving the area increased from 75,781 as of 2000 census to 104,562 as of 2010 census data, indicating an opportunity for business purpose lending.

The county has an educated workforce and low business costs which have aided the county in drawing employers. The county has seen broad based job growth and a steadily improving housing market. Large technology and banking employers continue to add jobs in the area. Top employers include North Carolina State University, Wakemed Health & Hospitals, Rex Healthcare, SAS Institute, and Pinkerton and Burns. Leading industries include manufacturing, professional and business services, government, and retail trade. Migration into the county outpaces migration out by more than four times.

The county has benefited from lower unemployment rates compared to the state and National figures for the past 20 years. Most recently at the third quarter of 2013, the unemployment rate for Wake County was 6.6 percent compared to the state rate of 8.3 percent and the National rate of 7.3 percent.

Community Contact

Community contacts with local community, economic, and/or housing organizations are utilized to ascertain the assessment area credit needs, demographics, and economic conditions. One community contact with a community development organization was utilized in conjunction with this CRA evaluation. The contact indicated that the area has seen strong job growth and lower unemployment rates than other areas of the country. The contact stated that the local financial institutions were doing a good job overall of meeting the credit needs of the community, but that there was a need for funding of affordable housing such as apartments.

CONCLUSIONS WITH RESPECT TO STRATEGIC PLAN GOALS

Square 1 Bank's Strategic Plan established the following 2010, 2011, and 2012 goals for Satisfactory and Outstanding performance. The bank's performance towards meeting the goals

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is also shown. The bank exceeded the Strategic Plan goals for Outstanding for all but 2 goals, and the overall performance was determined to be Outstanding.

Table 4 - Square 1 Bank Strategic Plan Goals (2010)			
Goal	Satisfactory	Outstanding	Actual
CRA Loans and Investments as a % of Annual Average Assets *	1.00%, which equates to \$12.8 Million	1.25%, which equates to \$16.0 Million	\$12.7 Million
CRA Grants **	\$18,750	\$23,500	\$91,625
CRA Service Activity **	160 Hours	190 Hours	224 hours

* - CRA Investments included prior year investments still outstanding.

** - Grant and Service Activity are measured by year.

Table 5 - Square 1 Bank Strategic Plan Goals (2011)			
Goal	Satisfactory	Outstanding	Actual
CRA Loans and Investments as a % of Annual Average Assets *	1.00%, which equates to \$15.4 Million	1.25%, which equates to \$19.1 Million	\$19.2 Million
CRA Grants **	\$23,500	\$29,500	\$118,225
CRA Service Activity **	170 Hours	200 Hours	245 hours

* - CRA Investments included prior year investments still outstanding.

** - Grant and Service Activity are measured by year.

Table 6 - Square 1 Bank Strategic Plan Goals (2012)			
Goal	Satisfactory	Outstanding	Actual
CRA Loans and Investments as a % of Annual Average Assets *	1.00%, which equates to \$17.1 Million	1.25%, which equates to \$21.3 Million	\$28.5 Million
CRA Grants **	\$29,500	\$36,875	\$115,665
CRA Service Activity **	190 Hours	230 Hours	173 hours

* - CRA Investments included prior year investments still outstanding.

** - Grant and Service Activity are measured by year.

CRA Loans and Investments

Plan Year 2010

In 2010, actual CRA loans and investments totaled \$12.7 million, which fell just below the goal for Satisfactory of \$12.8 million. The bank had investments in an organization that was only partially given credit due to changes in how these structured investments are assessed. The bank originated three CRA loans in 2010. The CRA investments consisted of several certificates of deposits in 6 Community Development Financial Institutions (CDFI) and 4 investments in Small Business Investment Companies (SBIC) serving the assessment areas. Additionally, the bank held 7 mortgage backed securities collateralized by mortgages to low- and moderate-income families in the assessment areas. CRA loans and investments are summarized by type and year in the Table 7.

Plan Year 2011

In 2011, actual CRA loans and investments totaled \$19.2 million, which exceeded the Strategic Plan goal for Outstanding of \$19.1 million. The bank did not originate any CRA loans in 2011. The CRA investments consisted of several certificates of deposits in 5 CDFIs serving and 4 investments in SBICs serving the assessment areas. Additionally, the bank held 11 eleven mortgage backed securities collateralized by mortgages to low- and moderate-income families in the assessment areas. CRA loans and investments are summarized by type and year in Table 7.

Plan Year 2012

In 2012, actual CRA loans and investments totaled \$28.5 million which significantly exceeded the Strategic Plan goal for Outstanding \$21.3 million. The bank originated one CRA loan in 2012. The CRA investments consisted of several certificates of deposits in 5 CDFIs and 4 investments in SBICs serving the bank's assessment areas. The bank also held 12 mortgage backed securities collateralized by mortgages to low- and moderate-income families in the assessment areas and a municipal security. CRA loans and investments are summarized by type and year in Table 7.

Table 7 - Square 1 Bank CRA Loans and Investments			
Type	2010	2011	2012
Community Development Loans	\$300,000	\$0	\$7.5 Million
Deposits with CDFIs	\$1.2 Million	\$1.2 Million	\$1.2 Million
SBIC Investments	\$2.0 Million	\$2.0 Million	\$2.0 Million
Municipal Securities	\$0	\$0	\$3.2 Million
Mortgage Backed Securities	\$9.2 Million	\$16.0 Million	\$14.6 Million
Total	\$12.7 Million	\$19.2 Million	\$28.5 Million

Source: Bank Records

CRA Grants

The bank's grants substantially exceeded the goals for Outstanding for all three years reviewed. In 2010, actual CRA grants totaled \$91,625, which was nearly four times the goal for Outstanding. In 2011, actual CRA grants increased to \$118,225, which was over four times the goal for Outstanding. In 2012, actual CRA grants were \$115,665, which was over three times the goal for Outstanding.

Grants and donations for each year consisted of the following.

Plan Year 2010

- \$1,000 to a non-profit organization that provides an afterschool program and summer camp for children, primarily low-income children. The program is designed to assist youths academically.
- \$5,000 to a non-profit organization dedicated to helping students remain in school or return to school. The organization includes a mentoring program for youths at risk of dropping out of school and a program which supplies weekend food for children of low- and moderate-income families.
- \$2,500 to a non-profit organization that works to revitalize Durham, North Carolina. The organization focuses on the economic development, parking, appearance, safety, and promotion of the city.
- \$1,500 to a non-profit organization whose primary mission is to foster the development of individuals, families, and communities through financial education and counseling, homeownership counseling, and community development.
- \$500 to a non-profit organization that provides mentoring to low-income children.
- \$61,125 to an organization that provides housing to low- and moderate-income elderly individuals.
- \$20,000 to a non-profit organization whose mission is to identify, enable, and promote entrepreneurial companies in North Carolina. The organization provides assistance to individual entrepreneurs and companies as well as working to develop policies and resources that will enhance entrepreneurial success.

Plan Year 2010

- \$2,500 to a non-profit organization that provides an afterschool program and summer camp for children, primarily low-income children. The program is designed to assist youths academically.
- \$250 to a non-profit organization that provides mentoring to low-income children.
- \$250 to a non-profit organization that provides an afterschool program and summer camp for children, primarily low-income children. The program is designed to assist youths academically.
- \$5,000 to a non-profit organization dedicated to helping students remain in school or return to school. The organization includes a mentoring program for youths at risk of

dropping out of school and a program which supplies weekend food for children of low- and moderate-income families.

- \$30,000 grant to a non-profit organization whose mission is to identify, enable, and promote entrepreneurial companies in North Carolina. The organization provides assistance to individual entrepreneurs and companies as well as working to develop policies and resources that will enhance entrepreneurial success.
- \$5,000 to an organization that offers afterschool programs to children of low- and moderate-income households.
- \$2,500 to a non-profit organization that works to revitalize Durham, North Carolina. The organization focuses on the economic development, parking, appearance, safety, and promotion of the city.
- \$1,050 to an organization that hosts a summer camp for children of low- and moderate-income households from across the state of North Carolina.
- \$5,000 to an organization that offers GED and literacy programs to adults and youths. The organization primarily serves low- and moderate- income individuals.
- \$5,000 to an organization listed above that offers GED and literacy programs to adults and youths. The organization primarily serves low- and moderate- income individuals.
- \$61,125 to an organization that provides housing to low- and moderate-income elderly individuals.
- \$555 to two organizations that provide meals to low- and moderate-income elderly individuals.

Plan Year 2010

- \$25,250 to a non-profit organization whose mission is to identify, enable, and promote entrepreneurial companies in North Carolina. The organization provides assistance to individual entrepreneurs and companies as well as working to develop policies and resources that will enhance entrepreneurial success.
- \$2,500 to a non-profit organization that works to revitalize Durham, North Carolina. The organization focuses on the economic development, parking, appearance, safety, and promotion of the city.
- \$300 to a non-profit organization that provides mentoring to low-income children.
- \$500 to a non-profit organization that serves academically-focused students from impoverished families through out-of-school programs.
- \$10,000 to a non-profit organization dedicated to helping students remain in school or return to school. The organization includes a mentoring program for youths at risk of dropping out of school and a program which supplies weekend food for children of low- and moderate-income families.
- \$2,000 to a non-profit organization that provides an afterschool program and summer camp for children, primarily low-income children. The program is designed to assist youths academically and to aid them in making good life decisions.

- \$1,000 to a non-profit organization that works with young people through programs to prepare them for the workforce. The organization provides mentoring and resources to assist in preparation to join the workforce. The majority of the people served come from low- and moderate-income families.
- \$5,000 to a local organization that offers GED and literacy programs to adults and youths. The organization primarily serves low- and moderate- income individuals.
- \$250 to a non-profit organization that serves families and children in disadvantage communities through financial education covering areas such as personal finance, money management, and entrepreneurship.
- \$2,100 to an organization that hosts a summer camp for children of low- and moderate-income households from across the state of North Carolina.
- \$5,000 to a non-profit organization which provides afterschool programs for children of low- and moderate-income families.
- \$61,125 to an organization that provides housing to low- and moderate-income elderly individuals.
- \$640 to a non-profit organization that provides shelter and food to homeless individuals and families.

CRA Service Activity

In 2010, actual CRA service activity totaled 224 hours, which was well above the Outstanding performance goal of 190 hours. For 2011, CRA service hours increased to 245 which again was well above the Outstanding performance goal of 200. However, in 2012, the CRA service hours of 173 was slightly below the Satisfactory goal performance. Twenty-six employees used their financial expertise at community development organizations serving the assessment areas. The organizations served had purposes of either economic development, revitalization of distressed areas, or services for low- and moderate-income people. Some of the organizations served include the Durham Literacy Center, the Council for Entrepreneurial Development, Downtown Durham Incorporated, Durham Regional Financial Center, and Communities in Schools of Durham. For each of the above organizations, the bank's officers and directors served on the Board of Directors whereby they utilized their financial expertise and banking knowledge to assist in the decision making processes of these community development organizations.

FAIR LENDING AND OTHER ILLEGAL PRACTICES REVIEW

The evaluation identified no violations of antidiscrimination laws and regulations and no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.